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Testimony before the House Committee on Veterans' Affairs: Education and Training Subcommittee; by Gregory J. Ahart, Director, Human Resources Div.

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A 1976 report found that overpayments of educational assistance by the Veterans Administration (VA) were generally caused by delays in reporting training status changes, advance payments and prepayments of benefits, and processing delays or errors. Recommendations were made to the Congress and to the VA to correct these deficiencies. In August 1976, the Congress enacted legislation to eliminate prepayments and restrict advance payments. A followup review performed in 1978 revealed that overpayments were still significant and that additional action is needed. Actions to correct untimely reporting of changes in status were inadequate. For example: compliance surveys were sometimes ineffective; State approving agencies did not receive adequate guidance from the VA; assessments of overpayments against schools were seldom collected; and there was inadequate guidance on the use of Veterans Representatives on Campus. The VA has increased efforts to notify veterans of their obligation to report status changes. Although the VA has complied with recommendations for reducing processing delays and errors, more action is needed to improve automated processing of status changes, limit special payments, and the use of teletype stop payment notices. The VA has implemented a system to determine costs of collection so that determinations may be made on the justification for collection action. The timeliness of collection on special overpayments could be increased by decreasing the period that they are held. (HTW)

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STATEMENT OF  
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HUMAN RESOURCES DIVISION  
BEFORE THE  
SUBCOMMITTEE ON EDUCATION AND TRAINING  
COMMITTEE ON VETERANS' AFFAIRS  
HOUSE OF REPRESENTATIVES  
ON  
EDUCATIONAL ASSISTANCE OVERPAYMENTS  
IN THE  
VETERANS ADMINISTRATION

Mr. Chairman and Members of the Subcommittee, we are pleased to be here today to discuss our recently issued report on VA's educational assistance overpayment problem. 1/ As you know, we issued a report to the Congress on this problem in March 1976 2/ and in April 1976, we testified before this Subcommittee. In our 1976 report we stated that the overpayments were generally caused by (1) delays by the veterans and schools in reporting training status changes, (2) advance payments and prepayments of benefits, and (3) processing delays or errors.

We made recommendations to the Congress and to the Veterans Administration (VA) to improve the program. Our

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1/"Further Actions Needed To Resolve VA's Educational Assistance Overpayment Problem," (HRD-78-45, 2/17/78).

2/"Educational Assistance Overpayments, A Billion Dollar Problem--A Look At The Causes, Solutions, And Collection Efforts, Veterans Administration" (MWD-76-109, 3/16/76).

suggestions to Congress concerned amending the legislation to (1) require persons desiring advance payments to submit a financial need statement for VA to use in determining their eligibility for such payments and (2) return to a postpayment system for paying educational assistance benefits.

Our recommendations to VA focused on ways to improve reporting changes in veterans' training status, and improve VA's processing procedures. VA generally agreed with our recommendations and indicated it would implement most of them.

In February 1978, we issued a report on a followup review of actions that had been taken on our March 1976 recommendations. This followup review was requested by the Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations.

#### RESULTS OF FOLLOWUP REVIEW

Since the issuance of our 1976 report, the Congress and VA have taken a number of actions to help correct the overpayment problem. However, overpayments have continued at an alarming rate and additional actions are needed.

Although both overpayments detected and collections have been decreasing, collections have decreased less sharply than overpayments detected. For example, during the 12-month period ended February 1978, overpayments detected totaled about \$480 million--a decrease of 40 percent from the preceding 12-month period--while cash collections and offsets

from future entitlements totaled \$420 million--a decrease of 32 percent from the preceding 12-month period.

However, the number of veterans in training and the total amount of educational assistance benefits have also decreased. For example, from February 1977 to February 1978 the number of veterans in training decreased 21 percent and the amount of benefits decreased 16 percent.

As you know, the Congress in August 1976 enacted Public Law 94-378, which, effective June 1, 1977, eliminated the prepayment of monthly educational assistance benefits and restricted the issuance of advance payments to persons specifically requesting them.

In our March 1976 report we stated that, as an incentive for schools to report training status changes promptly, VA should evaluate the adequacy of the statutory reporting fee paid to schools and if necessary submit proposed amendatory legislation to the Congress. Through enactment of the Veterans' Education and Employment Assistance Act of 1976 in October 1976 and the GI Bill Improvement Act of 1977 in November 1977, the Congress amended 38 U.S.C. to increase the annual reporting fee from \$3 to \$5 and \$7, respectively, for each eligible veteran or dependent enrolled.

#### REPORTING VETERANS' STATUS CHANGES

In our March 1976 report we reported that about 41 percent of the overpayment amounts we sampled had resulted

from the untimely reporting of changes in status by veterans and the schools. We pointed out that VA and State approving agencies, as well as veterans and schools could improve the timeliness of reporting status change and thereby reduce the incidence of overpayments.

Although VA has taken action overpayments from all causes are still a problem. All of the parties involved need to do more to improve the situation.

#### VA compliance surveys

In our 1976 report we recommended that VA improve the timeliness of school reporting through more frequent, comprehensive compliance surveys, particularly at those schools with large balances of overpayments.

VA has improved its compliance surveys. Our followup showed that VA has emphasized in the surveys the need for schools to submit status change documents promptly, and has been giving schools guidance and assistance on the overpayment problem. However, indications are that this has not always been effective.

Also, VA had planned to increase the number of compliance surveys but has been unable to do so largely because of staff shortages. Although additional actions are underway to improve the quality of surveys, generally the causes for deficiencies--such as the reasons for errors or delays in reporting status changes--were not being determined. VA still needs to emphasize that this be done.

We also found a lack of uniformity in the training of compliance specialists in the six regions visited. Some offered no classroom training and for those that did, training ranged from 3 to 10 days. The training given generally followed VA's guidance for making compliance surveys which requires the specialists to report the probable cause of discrepancies to schools, but the guidance does not help specialists identify cause. The pitch is toward how to determine if there is a deficiency but not why it occurred.

In our followup report we recommended that VA (1) acquire enough full time compliance survey specialists to make comprehensive surveys, (2) see that the central office notifies the regions when their survey reports indicate that causes of deficiencies were not determined, and (3) see that the central office survey unit performs this and all of its other functions as soon as possible.

#### State approving agencies (SAA)

VA contracts with SAAs across the country to review school credentials and performance. This review includes the schools' reporting of training status changes to VA. SAAs are required to report any discrepancies in veterans' training status and problems to VA. On the basis of these reviews, VA approves the payment of benefits to eligible persons attending these schools.

VA relies heavily on SAAs for their evaluation of schools' procedures for reporting status changes. However, we found that VA was not providing much guidance to SAAs so we recommended in 1976 that this situation be improved. We believed that one way that would help would be to provide SAAs with periodic lists of the relative ranking of schools in terms of overpayments.

Our followup showed that VA has been providing workshops, information bulletins, circulars, meetings, etc., to SAAs since March 1976 to help them fulfill their responsibility. We also found that VA issued lists in July and August 1976 and March 1977 showing the number and amount of overpayments established according to educational institution. However, all six of the SAAs visited indicated that they had received little or no guidance on how to use the lists other than a July 28, 1976, VA circular that required that the causes of overpayments be determined by VA and SAAs. The VA regions and SAAs visited did not do this.

We recommended in our followup report that VA (1) change the list to show accurate current balances of overpayments, (2) increase guidance to regions and SAAs on (a) how to use the list to find out which schools have reporting problems and (b) how to get problems corrected, and (3) be alert for opportunities to improve its guidance to and cooperation with SAAs on overpayment matters.

Assessments of overpayments  
against schools

We previously reported that although VA is authorized to assess the full amount of an overpayment against a school negligent in reporting a status change, this authority had been infrequently exercised.

We recommended that VA increase such assessments in these cases. VA commented that through its planned increase in compliance surveys, it would be able to increase such assessments. VA regional offices were instructed to give continuing attention to this matter.

During our followup, we found that there has been a dramatic increase in assessments of liability against schools but little success in collections. A VA central office official told us that collections had not been good because schools had questioned whether they were actually liable for such overpayments. We found that lawsuits relating to the school liability issue have been filed against VA in three States. As a result, VA has placed a moratorium on its efforts to recover overpayments from schools.

Notwithstanding the moratorium we recommended in our followup report that VA identify schools which appear to be liable for overpayments so that prompt collection action can be taken if VA's authority to collect from schools is upheld in the pending lawsuits.



Use of VA resources  
on campus

Our March 1976 report stated that if given the opportunity and permission to do so, Veterans Representatives on Campus (Vet-Reps) could provide more valuable assistance to VA, the schools, and the veterans by helping to identify ways of improving the timeliness of the schools' status change reports, thus reducing overpayments at those schools. Although some schools continued to restrict Vet-Reps' access to school records, we believed that initial objections to placing Vet-Reps on campus had generally subsided.

We also concluded that veterans participating in VA's work-study program on campus could help Vet-Reps and the schools expedite status change reports and identify ways to improve the schools' reporting procedures and practices. Accordingly, we recommended that VA increase the involvement of its on-campus resources in identifying and correcting school reporting problems.

During our followup, VA central office officials told us that Vet-Reps and work-study students were assisting schools with reporting matters. However, VA officials did not know the extent of their involvement as this depended on the individual school's policy. Although we were informed that VA has attempted to encourage this involvement, it had not issued directives to regional offices.

Five of the regional offices we visited in our followup report had not received any guidance from the central office regarding use of Vet-Reps or work-study students in helping schools identify and correct their reporting problems. Also, the willingness of the regions to encourage the use of Vet-Reps in this capacity was mixed.

At the schools the involvement of Vet-Reps and work-study students varied. Most of the schools we visited were using work-study students to assist with reporting matters. However, some schools had restricted Vet-Reps' involvement. Apparently VA does not intend to encourage involvement of Vet-Reps because this would be strongly opposed by the schools and might provide schools a defense against VA efforts to recover overpayments. Because schools favor using work-study personnel instead, we recommended in our followup report that VA encourage schools to use these personnel in identifying and correcting school reporting problems.

Notifying veterans of their obligation to report training status changes promptly

Our March 1976 report stated that failure and delay in reporting status changes by veterans and other eligible persons were major causes of overpayments. We stated that to help alleviate the overpayment problem, VA should notify veterans of their obligation to report status changes promptly.

During our followup we noted that original entrance or reentrance award letters sent to students contained notices that VA should be notified of changes in address, enrollment, or number of dependents.

In August 1976 the central office gave all regional offices a sample letter to be sent to all schools within their jurisdiction. This letter requested the assistance of school officials in informing veterans of their obligation while receiving educational benefits. Included with the sample letter was a handout to be distributed to veterans when they were given their advance payments by the schools. The handout stated that any change in status must be reported immediately to the appropriate school officials and to VA.

VA has also periodically included notices with the education assistance checks telling veterans to report immediately any status change.

VA has increased its effort to notify veterans of their obligation to report training status changes promptly. VA should continue to emphasize this obligation to veterans because of the continuing occurrence of overpayments.

#### OVERPAYMENTS CAUSED BY VA PROCESSING

Our March 1976 report stated that 12 percent of the overpayment amounts we sampled had been caused by VA processing delays or errors. Such delays or errors resulted from the manual verification of training status changes by

VA, the use of special payments and delays in transmitting stoppayment notices.

We made recommendations to the Administrator of VA for reducing VA processing delays and errors. Although VA has substantially complied with these recommendations, it needs to do more to reduce delays and errors.

Manual verification of status changes

Our 1976 report stated that when a status change is reported to a regional office, the student's claim folder is reviewed to verify the accuracy of data received from the school before such data is forwarded to the Hines data center for computer processing. We said that reviewing claim folders is time consuming and referred to our 1971 report to the Congress 1/ which recommended that VA implement procedures so that, when possible, all data from status documents would be transmitted by the regional offices to Hines to be processed without referral to the claim folders. Initially VA agreed to eliminate manual verification, but then decided not to.

Our 1976 report stated that on the basis of an updated test we had performed, we had determined that automated processing of status changes would have required an average

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1/ "Further Action by Veterans Administration Could Reduce Administrative Costs and Improve Service to Veterans Receiving Educational Benefits," (B-114859, July 8, 1971)

of 10 days at the Los Angeles regional office; the normal average was about 17 days. By applying the 10-day processing time to overpayment cases sampled, in that region, we determined that \$7,333, or about 11 percent, of the \$64,115 in total overpayments could have been avoided.

VA responded that it would test this procedure at the field station level and then decide whether to implement it. During our followup the central office advised us that this procedure had been tested during May and June 1976. After analyzing the test results, VA decided not to implement our recommendation because of the error rate experienced during the test.

VA also said automation of processing status changes would not result in a net savings to VA and that if existing procedures were properly implemented, the problem of late reporting of status changes would be resolved.

We believe that VA had inadequate information on which to base a decision regarding the implementation of our recommendation. We do not believe that the field stations or months tested were representative. We recommended in our followup report that VA should conduct another test which is representative of typical VA operations.

#### Special payments

Our 1976 report noted that hardship payments were originally established by VA to pay individuals suffering

economic hardships because of delays in the processing of their regular benefit payments; however, in July 1974 VA dropped the term "hardship" and substituted the term "special" to more appropriately recognize the expanded use of these payments by regional offices.

We reported a substantial increase in use of special payments. We were concerned because special payments became overpayments substantially more often than regular payments because transaction data was not being verified with the Hines data center master records before benefit checks were issued.

In view of the higher frequency of overpayments, we recommended that VA limit the use of special payments to proven hardship cases.

In April 1976, VA issued to all regional offices a circular requiring actions to reduce the incidence of special payments.

All the regions we visited during our followup showed a significant decrease in the amount of special payments during calendar year 1976. However, some of the regions visited attributed this decrease at least partly to faster claims processing, which can reduce the need for special payment, and reductions in veteran enrollments, rather than limiting special payments to proven hardship cases. To further reduce the incidence of special payments and

their effect on overpayments, we recommended in our followup report that VA limit the use of special payments to proven hardship cases.

#### Use of teletype stoppayment notices

We reported in March 1976 that in many cases the Los Angeles regional office could have prevented 1 month's overpayment by transmitting a teletype stoppayment notice to the Hines center when insufficient time remained for regular processing. Under VA's compensation and pension programs, regional offices routinely transmitted teletype stoppayment notices to Hines when notices normally processed would not arrive in time to prevent an overpayment. However, regional offices seldom used teletype stoppayment procedures for educational assistance benefits.

We recommended that regional offices be directed to expand the use of teletype stoppayment notices to halt overpayments. VA agreed and appropriate instructions were issued in April 1976. The instructions also provided for acceptance, by telephone, of notices of termination.

Our followup showed that nationally the use of teletype stoppayment notices has increased dramatically since January 1976. From March to December 1975, Hines received an average of 445 such transactions per month in the education benefits system; however, from March 1 through December 17, 1976, such transactions averaged over 9,000

per month. From January 1 through December 31, 1977, they averaged over 15,000 per month.

Our recommendation has been largely implemented, but VA may have missed an opportunity for further implementation because of the lack of information on trends in individual regions' use of teletype stoppayment notices and the best time to have schools start telephoning terminations to regional offices. We therefore recommended in our followup report that VA require the regions to develop monthly statistics on the use of teletype and other stoppayments notices, so VA can monitor continuing efforts in this area.

#### VA COLLECTION EFFORTS

Our March 1976 report stated that:

- Collection of educational assistance overpayments had not kept pace with the increasing numbers of overpayments established annually.
- Overpayments outstanding had increased 3,450 percent, from \$8.4 million at the end of fiscal year 1970 to \$289.2 million at December 31, 1975.
- Overall, VA had collected about 75 percent of the overpayments and had waived, compromised, and written off as uncollectible about 4 percent. The remaining 21 percent were still pending disposition.



During our followup we found overpayments outstanding had increased from \$289.2 million as of December 1975 to \$462 million as of June 30, 1977, representing an increase of 5,400 percent since December 1970. Also overall VA has collected about 76 percent of the overpayments and has waived, compromised, and written off as uncollectible about 6 percent. The remaining 18 percent were still pending disposition.

#### Overpayment accounts backlog

Our March 1976 report stated that collection of existing overpayments had increasingly lagged behind the annual increase in overpayments. We reported that VA had centralized the collection of overpayments at St. Paul; however, the centralized system had not been able to keep pace with increasing number of overpayments. Problems noted were: (1) the computer system lacked the capacity to process all collection data daily and (2) personnel shortages caused backlogs in responding to veteran inquiries and establishing new case files. Accordingly, we recommended that VA improve the efficiency of the Centralized Accounts Receivable System's (CARS) operations in processing cash collection actions and in responding to inquiries from persons who had been overpaid.

Our followup showed that VA had implemented major changes to improve CARS' efficiency. We were advised by VA

that through extensive overtime CARS had reduced correspondence backlogs from over 48,000 letters in January 1976 to about 16,200 letters. We were advised that if the backlog increased, additional personnel would be shifted to CARS from other areas to reduce it.

CARS became fully operational in January 1975. From its inception through April 1977 CARS had made cash collections totaling about \$140 million.

#### Award letters

In 1976, we reported that letters notifying veterans of eligibility and benefits and award letters, did not state that (1) they had overpayments outstanding or (2) future benefit payments would be withheld until the overpayments were recovered. Accordingly, we recommended that VA revise its award letters to provide this information.

During our followup, we noted that effective September 1976 the Hines center had modified its award letter. The letter advised the debtor, who was to continue receiving VA benefits, that an overpayment would be added to any prior debt and that VA would withhold enough benefit payments to collect the total debt.

#### Cost of VA's collection efforts

We reported that the Federal Claims Collection Act of 1966 authorizes agencies attempting to collect debts of less than \$20,000 owed the Government to terminate

or suspend collection actions when costs of collection exceed the amount owed. A VA task force appointed to study, among other things, VA's policies, procedures, and controls governing the collection of overpayments noted in March 1975 that VA officials could not adequately make the decisions authorized by the law because VA had not determined its costs of collection. We recommended that VA develop statistics to provide comprehensive data on collection costs that could be compared to potential recoveries so that collection costs would not exceed recoveries.

At the time of our followup, VA had implemented a work measurement system at CARS for use in determining labor costs and it was identifying other cost elements incurred in the accounts receivable collection process so that the amount of these costs could be determined. We understand that a system which will identify collection costs is to be implemented at some future date and that criteria will be established for determining when collection efforts are not justified.

Collection action on special overpayments

In 1976, we reported that special payment transactions were held in suspense about 60 days before being converted to overpayments. Special payments were held 30 days in a

suspense account at the Hines data center and 30 additional days at the St. Paul center before the first collection letter was sent. This schedule was adopted by VA to allow sufficient time for receipt of regular payment transaction documents at Hines. We recommended that VA improve the timeliness of collection actions on special overpayments by decreasing the period special payments are held in suspense awaiting such documents.

During our followup we noted that special payments are held in suspense 3 to 7 weeks at Hines before converting them to receivables. We believe that with a concerted effort to process award documents more promptly, VA can substantially reduce or even eliminate the waiting period before mailing collection letters for special overpayments.

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Mr. Chairman, I have referred to a number of recommendations to VA which were included in our February 1978 report. We believe that implementation of these recommendations would further alleviate the overpayment problem. As is customary, we provided VA an opportunity in September 1977 to comment on our draft report. However, VA did not provide us with written comments. Because the Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, requested that our report be issued before the February 1978 hearings on VA's 1979 appropriations, we issued the report without comments.

Mr. Chairman, this concludes my statement. We will be happy to respond to any questions you or members of the Subcommittee might have.